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Neomar annual report 1981



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NEOMAR RESOURCES LIMITED
ANNUAL REPORT

Neomar

Board of Directors

Stanley J. Chad, Calgary, Alberta
Petroleum Engineer, President, Signalta Resources Limited

†H. Dahl-Jensen, Unionville, Ontario
Realtor

A. J. Fasken, Toronto, Ontario
Executive, Executive Vice President, Camflo Mines Limited

*Robert E. Fasken, Mississauga, Ontario
Mining Executive, Chairman, Camflo Mines Limited

†K. G. R. Gwynne-Timothy, Q.C., Toronto, Ontario
Barrister and Solicitor, Partner, Holden, Murdoch & Finlay

†*Donald A. Engle, Calgary, Alberta
President, Neomar Resources Limited

*Robert M. Smith, Oakville, Ontario
Mining Engineer, President, Camflo Mines Limited

*Member of the Executive Committee

†Member of the Audit Committee

Officers and Staff

Donald A. Engle — *President*

Robert E. Fasken — *Vice President*

Robert M. Smith — *Vice President*

Brian K. Meikle — *Vice President Mining Operations*

William R. Robertson — *Secretary*

S. Blair Patrick — *Treasurer*

Robert D. Sherman — *Assistant Treasurer*

C. Bruce Burton — *Controller*

Yvon A. Rivard — *Geologist*

J. Denis McGrath — *Landman*

Executive Office

Suite 2800, 300 5th Avenue S.W.
Calgary, Alberta T2P 3C4

Head Office

Suite 3001, South Tower, P.O. Box 45
Royal Bank Plaza
Toronto, Canada M5J 2J1

Transfer Agent and Registrar

Canada Permanent Trust Company
Toronto, Ontario

Auditors

Thorne Riddell
Calgary, Alberta

Solicitors

Holden, Murdoch & Finlay
Toronto, Ontario

Bankers

Bank of Montreal
Calgary, Alberta

Share Listing

The Toronto Stock Exchange
Symbol NMR

Annual Meeting of Shareholders

May 13, 1982, 11:00 a.m.
Carlyle B Room, Chelsea Inn
Toronto, Ontario

Directors' Report to the Shareholders

Neomar Resources Limited experienced the most active year in its history during 1981, its second year of direct participation in the North American oil and gas industry. Significant additions have been made to our reserve base of oil and natural gas. This is reflected by increases in revenues received from production operations during the past year. We anticipate this trend will continue as more wells are brought on stream during 1982.

Financial Highlights:

Consolidated net income for 1981 increased to \$455,429 or \$.14 per share despite the negative effect of some \$132,000 of federal petroleum and gas revenue tax. Sales of a portion of the Company's interest in certain petroleum and natural gas leases contributed to this increase.

Revenue from petroleum and natural gas production increased 134% from \$697,881 to \$1,635,268.

Operations generated funds totalling \$1,228,104 compared with \$211,755 in 1980. Additional funding was provided from \$3,852,000 of bank borrowings and \$2,825,519 from the issue of

756,524 shares to Camflo Mines Limited. As a result, Camflo's interest in the Company increased from 53% to 63%.

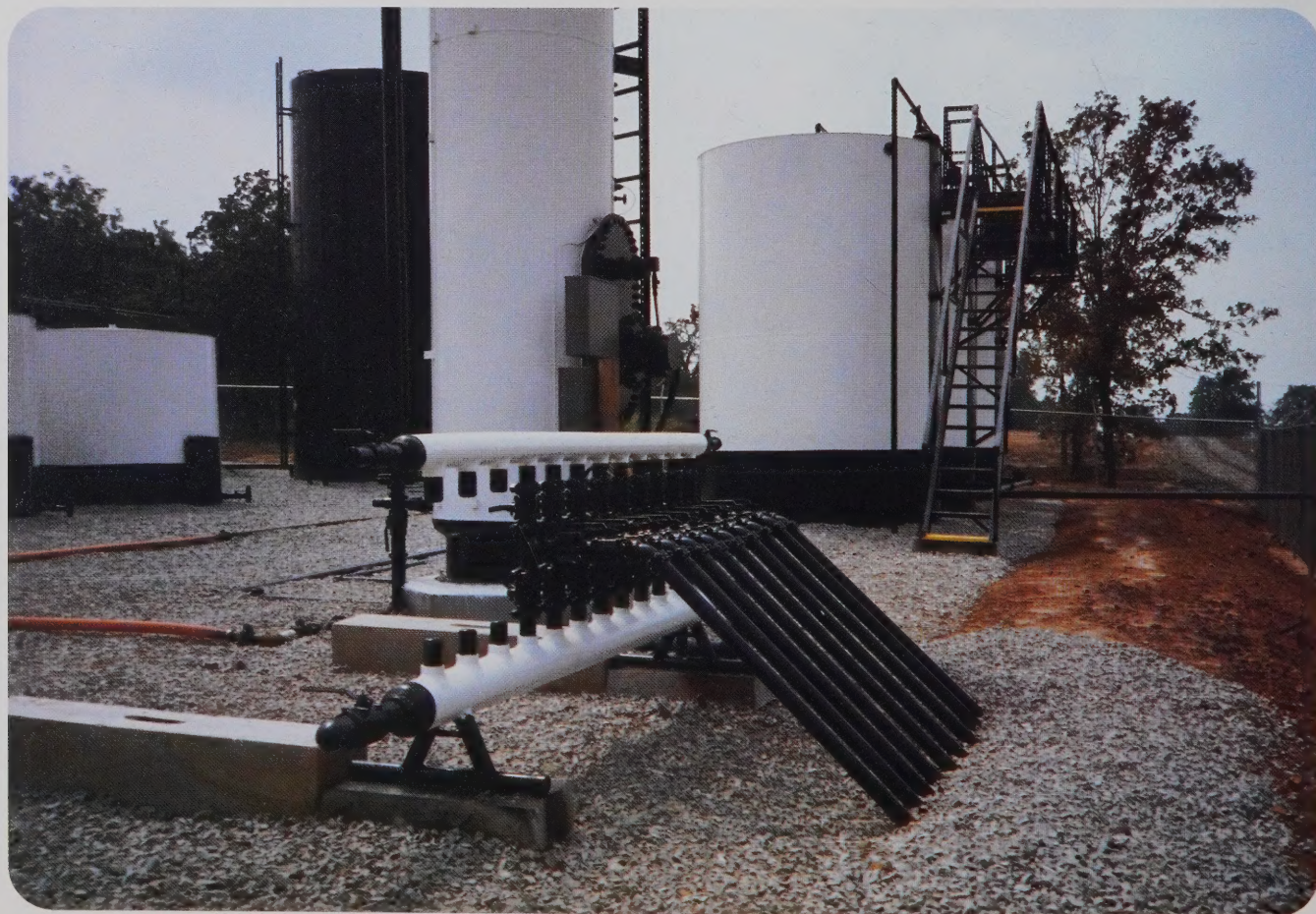
Expenditures on Petroleum and Natural Gas properties in 1981 amounted to \$5,560,109. Of this total \$2,444,018 was spent in Canada and \$3,116,091 in the United States through its wholly-owned subsidiary, Neomar Resources, Inc.

With good working capital and a strong capital structure, the Company remains in a sound financial position.

Oil and Gas Activities:

The major thrust of the Company is its activity in the oil and gas industry and 1981 saw more wells drilled, a higher success rate, more prospects and acreage added to inventory, and greater cash flows than ever before. A strong base for continued operations has been built.

The accompanying tables highlight this activity, which saw participation by the Company in a total of 192 wells during the year, an increase of 28% from a year ago.



Petroleum and Natural Gas Reserves
('000 bbls/mcf)
(Before Royalty)
December 31

	PROVEN		1981 PROBABLE		TOTAL		1980 Total	
	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas
Canada	99	24,071	152	7,666	251	31,737	120	12,133
United States	321	—	193	—	514	—	22	—
Total	420	24,071	345	7,666	765	31,737	142	12,133

Wells Drilled During 1981

	Gas	Oil	Dry	Total	Success %
Canada	94	2	32	128	75%
United States	3	39	22	64	66%
Total	97	41	54	192	72%

**Acreage Holdings
December 31, 1981**

	Gross Acres	Net Acres
Canada	148,000	31,000
United States	91,000	20,000
Total	239,000	51,000

Prospect Highlights:

Hanna Area, Alberta — During 1981 Neomar participated in the drilling of seven wells on this prospect, resulting in six gas wells and one oil well. The oil well went on production in January 1982 and several development wells are planned. There is an existing gas contract on these lands and it is expected that we will begin selling gas this year. There are 9600 gross acres and 1307 net acres held by Neomar on this prospect.

Tiger Flats Waterflood Project — Oklahoma — Operations to date have been most satisfactory. Results of drilling undertaken during the year indicate that the oil reservoir is larger than originally anticipated, and as a result, additional acreage has been acquired and two more wells are planned for drilling in 1982, bringing the total number of wells to eleven. Water injection into the reservoir is progressing on schedule and we anticipate oil production to significantly increase late this year.

Colorado — Nebraska D-J Basin Program — Neomar participated in the re-entry of 8 previously drilled and abandoned wells. During 1981 seven of these wells are now producing oil in economic quantities. Several excellent development locations exist on these prospects. Should existing production levels stand up over time, these locations will be drilled in late 1982.

Kansas — Neomar holds varying working interests in approximately 75,000 acres in the Central Kansas Uplift. During 1981 a portion of the Company's working interest in these lands was sold to industry partners for a profit. A large number of prospects have been developed on these lands, with drilling planned to take place over the next two years.

General:

Neomar Resources, Inc. opened an office in Denver, Colorado in August, 1981. Two senior industry geologists are employed by the Company on a retainer fee basis.

The Calgary, Alberta office staff now totals eight people. I would like to express my sincere appreciation to the significant contributions of each and every one of them to the overall success of our operations. The strength of a company is reflected by the quality of its people, and in this regard we are truly fortunate.

Gold:

Exploration and development on gold properties in the Red Lake area of Ontario continued during 1981 although the sharp downward movement in the price of gold has been discouraging.

Neomar has a 35% interest in Wilmar Mines Limited. Wilanour Resources Limited, an affiliated company, controls Wilmar and is conducting an underground exploration and development programme on the property. Diamond drilling of the granodiorite zone from the 1,300' level has indicated an increase in width at depth and work is currently underway to prepare a test block for longhole mining. A small tonnage of development muck has been hoisted to surface where most of it is stockpiled preparatory to a possible mill test later this spring.

The Wilmar winze was dewatered to the 2,050' level in March of 1982 and exploration of the

downward extension of the high grade East Breccia zone is currently being assessed.

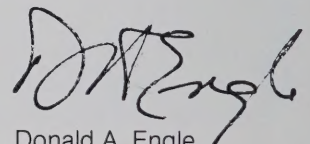
Outlook:

Our optimistic outlook for the future is tempered by the prevailing economic conditions, particularly in Canada as it pertains to the oil and gas industry.

High interest rates in North America are a significant factor to be considered in evaluating new opportunities.

Because of these factors we will continue to reduce our Canadian investments. As well, during 1982 the majority of our efforts will be directed to development drilling on existing projects to increase cash flow, and to finding outside partners to participate in our new exploration ventures.

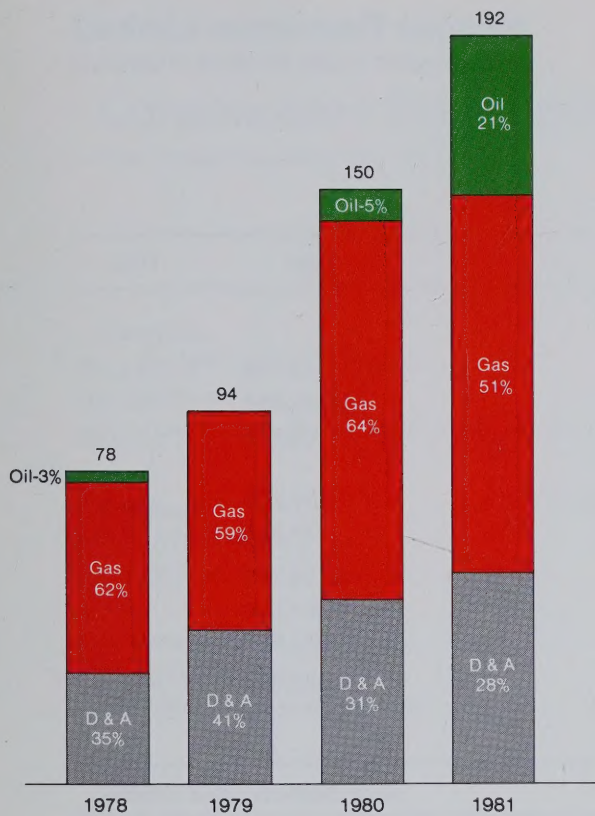
On behalf of the Board of Directors



Donald A. Engle
President

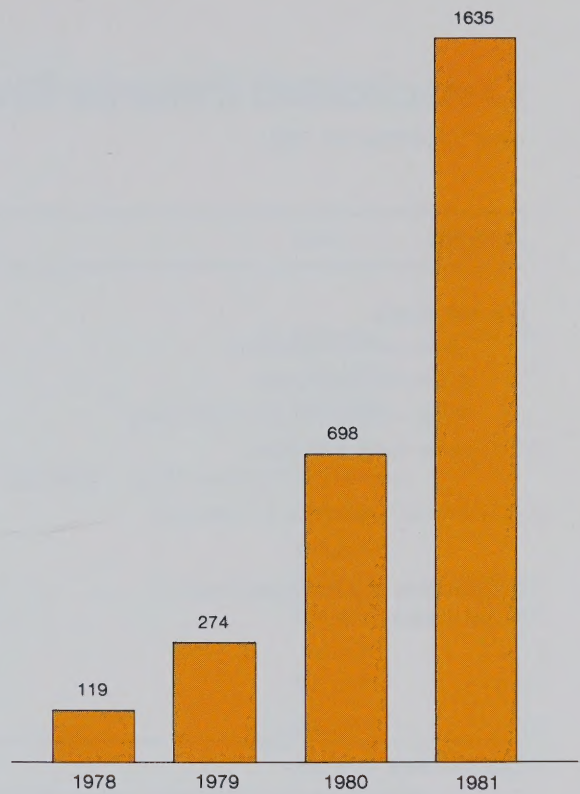
April 7, 1982.

Number of Wells Drilled



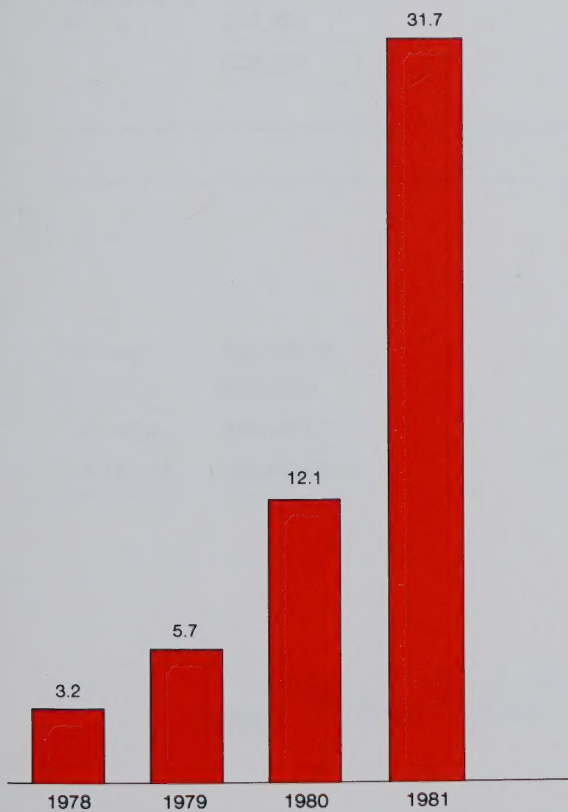
Petroleum and Natural Gas

Production Revenue
In Thousands of Dollars



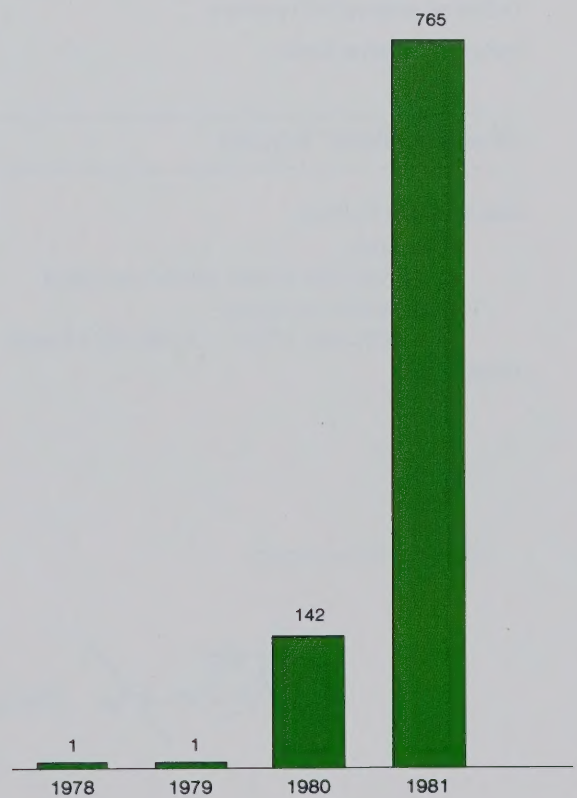
Reserves - Natural Gas - Before Royalties

Proven and Probable
in Billions of Cubic Feet.



Reserves - Oil Before Royalties

Proved and Probable
in Thousands of Barrels

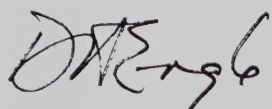


Consolidated Balance Sheet

as at December 31, 1981

Assets	1981	1980
Current assets		
Cash and term deposits	\$ 51,148	\$ 143,882
Accounts receivable	1,095,024	466,397
Receivable from parent company	96,832	125,040
Marketable securities (quoted market value 1981 — \$367,025; 1980 — \$1,294,975)	234,275	234,275
Prepaid expenses and deposits	27,496	19,443
	<u>1,504,775</u>	<u>989,037</u>
Investments and advances (note 2)	1,801,922	32,135
Fixed assets (note 3)	12,282,270	6,960,679
	<u>\$15,588,967</u>	<u>\$7,981,851</u>
Liabilities	1981	1980
Current liabilities		
Bank indebtedness	\$ —	\$ 264,271
Accounts payable and accrued liabilities	592,785	321,909
	<u>592,785</u>	<u>586,180</u>
Bank production loan (note 4)	6,500,000	2,648,000
Deferred production revenue	122,760	87,197
Deferred income taxes	432,000	—
Shareholders' Equity		
Capital stock (note 5)		
Authorized 5,000,000 shares without par value		
Issued and to be issued 3,852,621 (1980 — 3,096,097) shares	8,766,422	5,940,903
Deficit	(825,000)	(1,280,429)
	<u>7,941,422</u>	<u>4,660,474</u>
	<u>\$15,588,967</u>	<u>\$7,981,851</u>

Approved by the Board

 Director

 Director

Consolidated Statement of Operations and Deficit

Year Ended December 31, 1981

	1981	1980
Revenue		
Petroleum and natural gas	\$1,635,268	\$ 697,881
Interest	67,194	22,147
Gain on sale of petroleum and natural gas leases	1,034,450	—
	<u>2,736,912</u>	<u>720,028</u>
Expenses		
Operating	360,582	124,388
Petroleum and gas revenue tax	131,646	—
Administrative	219,875	189,739
Interest on long-term debt	798,807	173,574
Other interest	16,634	20,572
Depletion and depreciation	321,939	210,933
	<u>1,849,483</u>	<u>719,206</u>
Income before income taxes	887,429	822
Income Taxes		
Deferred	432,000	—
Net Income	455,429	822
Deficit at beginning of year	1,280,429	1,281,251
Deficit at end of year	\$ 825,000	\$1,280,429
Earnings per share	\$.14	\$ —

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1981

	1981	1980
Working capital derived from		
Operations	\$1,228,104	\$ 211,755
Issue of shares	2,825,519	2,989,481
Increase in deferred revenue	35,563	87,197
Increase in bank production loan	3,852,000	1,948,000
Reduction in current maturities on bank production loan	—	112,000
	<u>7,941,186</u>	<u>5,348,433</u>
Working capital applied to		
Purchase of fixed assets	5,662,266	5,295,786
Increase in investments	1,769,787	3,262
	<u>7,432,053</u>	<u>5,299,048</u>
Increase in working capital	509,133	49,385
Working capital at beginning of year	402,857	353,472
Working capital at end of year	\$ 911,990	\$ 402,857

Auditors' Report

To the Shareholders of
Neomar Resources Limited

We have examined the consolidated balance sheet of Neomar Resources Limited as at December 31, 1981 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
February 26, 1982

THORNE RIDDELL
Chartered Accountants

MANAGEMENT REPORT

The annual report and financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report including the financial statements.



D. A. Engle, President



S. B. Patrick, Treasurer

Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1981

The Company is incorporated in Ontario under The Business Corporations Act and is a public company listed on the Toronto Stock Exchange. As at December 31, 1981 approximately 63 percent of the issued shares of the Company were owned by Camflo Mines Limited (Camflo). The principal activity of the Company consists of the exploration for and development of natural resources in Western Canada and through its wholly-owned subsidiary in the United States.

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

Subsidiary Company

These financial statements include the accounts of the Company and its wholly-owned United States subsidiary, Neomar Resources, Inc.

Marketable Securities

Marketable securities are carried at the lower of cost and market and consist of an investment in an affiliated company.

Joint Ventures

Substantially all of the exploration and development activities of the Company are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

(b) Petroleum and Natural Gas

The Company follows the full cost method of accounting for petroleum and natural gas whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are ordinarily credited against such costs. Depreciation and depletion are provided on the net costs using the composite unit of production method based on total estimated proven reserves as determined by independent engineers.

In the course of its ongoing exploration activities, the Company may acquire interests in petroleum and natural gas leases which, at the time of acquisition are recorded in the balance sheet as inventory of leases held for resale and are valued at the lower of cost and net realizable value. Gains and losses on the disposition of such leases are included in income.

(c) Mining Claims

Expenditures on mineral exploration programmes are deferred on a specific project basis until the economic viability of the project is determined. If a project is developed, the related accumulated costs are amortized against future earnings from that project. If a project is abandoned the accumulated project costs are charged to operations.

(d) Foreign Currency Translation

The Company translates amounts in foreign currencies into Canadian dollars on the following basis:

- (i) Current assets and liabilities, at exchange rates prevailing at the year end.
- (ii) All other assets and liabilities at exchange rates prevailing at the date the assets were acquired or the liabilities incurred.
- (iii) Revenue and expenses at the average rate for the year except for depreciation and depletion which are translated on the same basis as the related assets.
- (iv) Unrealized foreign exchange gains and losses are included in operations.

2. Investments and Advances

	1981			1980
	Shares	Advances	Total	Total
Ancco Mines Limited (45% owned)	\$ 1	\$25,361	\$ 25,362	\$ 6,323
Wilmar Mines Limited (35% owned) (note 5b)	1,750,001	26,556	1,776,557	25,809
Other companies	3	—	3	3
	<u>\$1,750,005</u>	<u>\$51,917</u>	<u>\$1,801,922</u>	<u>\$32,135</u>

3. Fixed Assets

	1981				1980
	Petroleum and natural gas	Gold	Office furnishings and fixtures	Total	Total
Canada					
Cost	\$ 8,425,474	\$274,035	\$ 85,754	\$ 8,785,263	\$6,327,189
Accumulated depletion and depreciation	593,152	—	19,266	612,418	334,813
Net book value	<u>7,832,322</u>	<u>274,035</u>	<u>66,488</u>	<u>8,172,845</u>	<u>5,992,376</u>
United States					
Cost	4,108,137	—	64,130	4,172,267	992,046
Accumulated depletion and depreciation	57,674	—	5,168	62,842	23,743
Net book value	<u>4,050,463</u>	<u>—</u>	<u>58,962</u>	<u>4,109,425</u>	<u>968,303</u>
	<u>\$11,882,785</u>	<u>\$274,035</u>	<u>\$125,450</u>	<u>\$12,282,270</u>	<u>\$6,960,679</u>

4. Bank Production Loan

The Company has entered into a bank loan arrangement which provides for a revolving line of credit up to a maximum of \$10 million. The facility is based upon the Company's petroleum and natural gas properties, is reviewed annually and can be extended each year provided the borrowing base is in excess of the principal outstanding at the time or may be converted at the option of the Company to a 5 year term loan payable in monthly instalments.

The bank production loan is secured by marketable securities, an assignment of accounts receivable and certain of the Company's petroleum and natural gas properties. Interest is payable at bank prime rate plus one-quarter of one percent.

5. Capital Stock

(a) Changes in the capital stock of the Company during the year were as follows:

	Number of Shares	Amount
Balance, December 31, 1980	3,096,097	\$5,940,903
Issued for exploration and development expenditures (i)	310,888	1,075,519
To be issued for partnership interest	445,636	1,750,000
Balance, December 31, 1981	<u>3,852,621</u>	<u>\$8,766,422</u>

- (i) These shares were issued to Camflo, the Company's parent, pursuant to an agreement under which Camflo agreed to incur expenditures totalling \$4,000,000 on Canadian exploration and development in the Company's oil and gas exploration program in exchange for shares of the Company. As at December 31, 1981 all expenditures had been incurred under this agreement and the related shares issued.
- (b) During 1980, Wilmar Mines Limited (Wilmar) in which the Company has a 35% interest, formed a partnership with Camflo to carry out exploration, development and rehabilitation of the Wilmar property near Red Lake, Ontario. Wilmar contributed the property and Camflo agreed to spend \$5,000,000 on exploration and development of the property before December 31, 1981. As at December 31, 1981, Camflo had expended \$5,000,000 on the property and pursuant to the agreement elected on January 4, 1982 to assign 35% of its interest in the partnership to the Company for 445,636 shares in the capital stock of the Company. The Company will assign the interest in the partnership to Wilmar in exchange for a number of shares to be determined in the capital stock of Wilmar.
- (c) As at December 31, 1981, 20,000 shares of the capital stock of the Company have been reserved for exercise of employee stock options to 1984 at prices ranging from \$3.06 to \$3.74 per share. All options were granted under an employee stock option plan. At December 31, 1981, an additional 80,000 shares were reserved for options that may be granted under the plan.

6. Income Taxes

As at December 31, 1981 petroleum and natural gas assets of \$4,000,000 (1980 — \$2,924,000) relate to acquisitions made in accordance with certain provisions of the Income Tax Act (Canada) under which such amounts are not deductible for income tax purposes by the Company.

7. Related Party Transactions

During 1981 the Company entered into an agreement to manage the petroleum and natural gas activities of Camflo and other affiliated companies. The Company charges these related parties a fee based on actual costs associated with this service. This fee is recorded as a reduction of general and administrative expenses.

8. Segmented Information

The Company's operations consist of gold exploration and petroleum and natural gas exploration, development and production. Capital expenditures by business and geographic segment are shown in note 5. Operating results reflect only petroleum and natural gas activities as the gold properties are non producing. Presented below are these results by geographic segment:

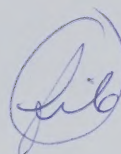
	Canada	United States	Total
Revenue	<u>\$1,547,530</u>	<u>\$1,122,188</u>	<u>\$ 2,669,718</u>
Income from operations	<u>\$ 849,611</u>	<u>\$1,027,906</u>	<u>\$ 1,877,517</u>
Corporate expenses, net of common revenues			990,088
Income before income taxes			<u>\$ 887,429</u>
Identifiable assets	<u>\$9,213,380</u>	<u>\$4,339,390</u>	<u>\$13,552,770</u>
Investments in affiliates			2,036,197
Total assets			<u>\$15,588,967</u>

Comparative figures for 1980 are not presented as the operating results for that year related primarily to activities in Canada.

AR12

Neomar

NEOMAR RESOURCES LIMITED



INTERIM REPORT TO SHAREHOLDERS

For the Six Months ended June 30, 1981

NEOMAR RESOURCES LIMITED

Suite 3001
South Tower
Box 45, Royal Bank Plaza
Toronto, Ontario
M5J 2J1

FINANCIAL:

Net income for the first six months of 1981 was \$446,830 or 14¢ per share compared with \$28,001 or 1¢ per share in 1980. Sales of a portion of the Corporation's interest in certain petroleum and natural gas leases contributed to this increase.

Revenue from petroleum and natural gas production increased 82% from \$356,301 to \$649,428.

Operations generated funds totalling \$1,020,325 compared with \$119,014 in 1980. Additional funding was provided from \$1,150,000 of bank borrowings and \$1,075,519 from the issue of shares to Camflo Mines Limited. These funds were used to finance exploration and development activities both in Canada and in the United States and to increase the Corporation's working capital.

OIL AND GAS:

Activity for the first six months of this year has continued at a high level. To date, the Corporation has participated in the drilling of a total of 79 wells, resulting in 17 oil wells, 39 gas wells and 23 dry holes.

The Corporation has participated in the drilling of 52 wells in Canada. Of these 39 were completed as gas wells. It is anticipated that all but two of these wells will be tied in and producing gas by year end. Three gas wells in which Neomar participated last year were placed on stream in early April and to date have been generating monthly revenues to Neomar of approximately \$70,000. This will have a significant positive impact on cash flows.

Acquisition of acreage on the Kansas leasing programs is continuing. Geological work on these lands is progressing well and to date, 10 locations have been approved for drilling on our first program. The first well in this program has been drilled and is being completed as a successful oil well.

Installation of facilities is near completion at the Tiger Flats Waterflood project in Okmulgee County, Oklahoma. It is planned to be injecting water into the formations by the end of July, and we anticipate initial response in the form of increased oil production in approximately six months.

During the last half of 1981, development drilling is planned on four of the existing prospects in the United States, and initial drilling will commence on 13 new prospects.

GOLD:

Exploration of the granodiorite by diamond drilling on the 1,300' level of the 35% owned Wilmar property is outlining zones of economic grade ore. Raising and sub-drifting will commence shortly and will help define the outline of these zones. Installation of the winze hoist has begun and the dewatering program continues.

Donald A. Engle
President

August 14, 1981

NEOMAR RESOURCES LIMITED

CONSOLIDATED STATEMENT OF OPERATIONS

Six months ended June 30, 1981

	1981	1980
Revenue		
Petroleum and natural gas .	\$ 649,428	\$ 356,801
Interest	21,706	6,111
Gain on disposition of P & NG Leases	828,884	
	<u>1,500,018</u>	<u>362,912</u>
Expenses		
Operating	86,177	45,456
Administrative	87,650	113,726
Depletion and depreciation	215,895	91,013
Interest on long-term debt .	292,236	75,328
Other interest	13,630	9,388
	<u>695,588</u>	<u>334,911</u>
Income before income taxes .	<u>804,430</u>	<u>28,001</u>
Deferred income tax expense .	<u>357,600</u>	
Net income for the period . .	<u>\$ 446,830</u>	<u>\$ 28,001</u>
Earnings per share	<u>\$.14</u>	<u>\$.01</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Six months ended June 30, 1981

	1981	1980
Working Capital derived from		
Operations	\$1,020,325	\$ 119,014
Increase in bank production loan	1,150,000	244,000
Issue of shares	1,075,519	420,000
	<u>3,245,844</u>	<u>783,014</u>
Working Capital applied to		
Decrease in long term debt .		71,000
Purchase of fixed assets . . .	3,082,336	1,007,936
Increase in investments and advances	520	2,205
	<u>3,082,856</u>	<u>1,081,141</u>
Increase (Decrease) in Working Capital	<u>162,988</u>	<u>(298,127)</u>
Working Capital at beginning of period	<u>402,857</u>	<u>353,472</u>
Working Capital at end of period	<u>\$ 565,845</u>	<u>\$ 55,345</u>